



## THEORETICAL FOUNDATIONS OF THE ORGANIZATION OF PUBLIC PROCUREMENT IN THE REGULATION OF THE ECONOMY

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**ABSTRACT:** - In the context of climate change as a grand challenge, this article offers insights on market shaping from research on industrial networks and institutional work to the market practice perspective. The purpose of the study is to conceptually integrate policy practices and market practices aimed at coping with climate change using public procurement as a case. We draw upon a conceptual model distinguishing three separate market practice categories: market exchange, market representation, and market normalizing. In expanding the model with policy actors deliberate market shaping activities, we locate institutional work as part of the larger set of normalizing practices. Based on the extended model, we find two concepts worthy to be at the core of the analysis: translation within and between market practice categories, and temporality attributes of institutional work and market actor innovations. In an empirical study, reflecting an on-going abductive research process on market shaping, the article scrutinizes how government institutional work in Sweden can make public procurement contribute to innovations related to market practices. Based on a study of government documents, we formulate three propositions, on translation, temporality and market representation. The study suggests that temporality dimensions in institutional work to develop policy innovations and translation of the innovations to exchange practices affect the intended effects on procurement behavior. It also shows that policy innovations performed by institutional work might be in conflict with established norms to which actors might continue to adhere, requiring added translation efforts, and delaying climate mitigating effects. Based on the empirical observations, the article argues that value chains, as a model for market representation, may have the performative power to shape and reshape markets.

**“THEORETICAL FOUNDATIONS OF THE ORGANIZATION OF PUBLIC PROCUREMENT IN THE REGULATION OF THE  
ECONOMY”**

**KEYWORDS:** Market practices Institutional work Innovation Climate mitigating Public procurement Value chains

## INTRODUCTION

Climate change presents a grand challenge, that by its very nature, requires “coordinated and sustained effort from multiple and diverse stakeholders and a clearly articulated problem or goal.” The analytical facets of grand challenges are complex, uncertain and characterized by evaluative multiplicity. The Paris Climate Treaty of 2015 provides governments and stakeholders with an articulated goal: drastically reduce fossil emissions in two to three decades to keep global warming well below two degrees, as compared to the pre-industrial era. To achieve transformative changes, innovations across production and consumption processes are arguably indispensable. Climate mitigation calls for coordinated activities between actors involved in government policy, and those involved in markets. Innovations performed by market actors need to be impelled by government initiatives and actions, which must also be of an innovative nature. To grasp the climate mitigating process, knowledge about interdependencies between policy and market practices is essential (Scherer & Palazzo, 2011).

Institutional work for public procurement to promote climate innovation

In this section we illustrate how recent literature on public procurement refers to market practice categories and to institutional work to promote innovation. Formal and informal rules for public procurement have traditionally been based on ideas about the cost effectiveness of arm's length market exchange in a competitive context, with

restrictions on the interactions between buyer and seller, and on the development of relationships over time. Literature on public procurement and innovation refers to the opposing logics of the micro economic and the network representation of markets. The importance of interaction over time in a network context has, for many years, been widely understood in practice, as witnessed by research on purchasing in the private. However, in the public sector, value creation based on interactions and relationships within networks has neither been fully recognized nor, until recently, legitimized in formal procedure. As revealed in the empirical section, government institutional work is currently directed towards a change in exchange practices, in an effort to make it closer in practice to the behavior seen in industrial markets in general. Axelsson and Torvatn (2017) argue that even if recent changes in procurement laws are less restrictive on interaction between seller and buyer, a micro economic based view on the role of competition for effective procurement practice is still dominant. Changes in formal rules might not affect behavior in the short run, due to a lack of competence and experience with the new tender procedures on the buyer side, and to uncertainty regarding norms concerning development of long-term relationships (Torvatn & De Boer, 2017). In a decentralized governance system, such as the Swedish model, where a great deal of decisionmaking power is vested at the regional and municipality levels, it is important to focus on local interpretations of the regulatory framework (Hall, Lofgren, & Peters, 2016). Public procurement might be

**“THEORETICAL FOUNDATIONS OF THE ORGANIZATION OF PUBLIC PROCUREMENT IN THE REGULATION OF THE ECONOMY”**

involved in different stages of the innovation process from a co-creating role in an innovation partnership during the ideation and development stage, to a role as user in the precommercialization stage, and to a role as buyer of an off-the-shelf good or service (Edquist & Zabala-Iturriagagoitia, 2012; Rainville, 2017). Studies on the role of public procurement for innovation, referred to below, specifically point to policy and organizational issues. A change in German legislation that made it possible to specify innovation criteria in tenders, for instance, had only marginal short term effects. Politicians' desire to use public procurement for implementation of environmental legislation has been shown to have a weak effect (Lundberg, Marklund, Strombäck, & Sundstrom, 2015). Rainville (2017) emphasizes the need for standardized criteria for public procurement to promote green innovations. A study into the effect of including environmental criteria in the supplier selection process found that in practice, they were most often ignored or incorporated as part of already existing criteria. The option of reorganizing the procurement function is proposed by Gadde and Snehota (2000). Other studies find that end-users in the procuring organization and politicians (Murray, 2009) should be involved in innovation procurement. Multiple objectives, political agendas, budgeting norms, legal rules, innovation risks and the strict procedures at various levels in a procuring organization are complex issues best handled in a project organization, according to Yeow and Edler (2012). It is important to note that research on large and complex "megaprojects" show an increased risk of mismanagement, including in the public procurement (Flyvbjerg, 2014; Grafstrom, Qvist, & Sundstrom, 2021). To use public

procurement as an instrument for systemic multi-level change in a circular economy, research indicates that technical and business model innovations, as well as stakeholder collaborations, are required (Alhola, Ryding, Salmenperä, & Busch, 2019). Tenders for public services to provide a function rather than tenders for products to be consumed (e.g., lamps) might promote development of stronger buyer-supplier relationships.

## **ANALYSIS**

Both market actors and policy actors propose that public procurement should be more actively engaged in emission reducing innovations. For market actors, it is one of many other policy requirements, while for policy actors, it is one of many other institutional work activities. The roadmaps we selected as data present innovation processes in different stages of realization, and some in the early stages of implementation when the roadmaps were submitted. Public procurement might contribute to emission reducing innovations, as a customer/user in an implementation phase or as a co-creator in the ideation and realization stages. Recognizing the restricted time frame for achieving the zeroemission goal and the interdependence between the innovation processes, temporality in terms of timing, sequencing, synchronization, duration, and speed all need to be considered. innovation processes, temporality in terms of timing, sequencing, synchronization, duration, and speed all need to be considered. First, we analyze how our data refers to translation processes. Second, we analyze the temporality of the innovation processes, with regard to the FFS roadmaps' innovations and policy requirements as well as the government institutional work for public procurement. Each section concludes with a proposition.

## **“THEORETICAL FOUNDATIONS OF THE ORGANIZATION OF PUBLIC PROCUREMENT IN THE REGULATION OF THE ECONOMY”**

## CONCLUSION

Our contribution is conceptual and empirical. We adapt a market practice model to include institutional work aimed at shaping markets. Furthermore, we apply concepts and empirical findings on market representation and market exchange from the literature on industrial markets in the IMP tradition. The empirical contribution is a description and analysis of state-market interaction to cope with a grand challenge. Based on these contributions, we formulate three propositions. Now, we suggest directions for further research.

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**“THEORETICAL FOUNDATIONS OF THE ORGANIZATION OF PUBLIC PROCUREMENT IN THE REGULATION OF THE ECONOMY”**